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SUBJECT: TURKEY'S ECONOMY APRIL 11: INTEREST RATES REMAIN
HIGH

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Markets Flat, Lack of Confidence Looking Forward -----

1. (U) At mid-day April 11, Turkish markets were quiet. FM Gul's April 10 statements that U.S. forces would prevent a (Kurdish) fait d'accompli calmed market fears of a Turkish military intervention. However, T-bill yields at week's end remain above the April 8 auction levels, meaning the Turkish banks who bought in the auction have lost money. Market sentiment remains generally gloomy as described below.

-- The April 28, 2004 bond is trading at 64.5 percent compounded; the lira is flat at TL 1,650,000; the Istanbul Stock Exchange is 0.03 percent.

2. (SBU) Interest rates on government securities aren't coming down partly because they reflect a higher than usual risk of debt default, according to market contacts like OYAK Holding Exec VP Ergun Okur. (He does expect some decrease in rates as northern Iraq fears subside, but only to the mid-50's.) Concerns about an eventual "debt event" also affect companies' investment decisions, he added. Turkish companies are staying liquid, making money from the high interest rates rather than investing. OYAK (Turkey's second largest car manufacturer) reports exports are also down slightly from last year because of weak conditions in their main European markets. He and others here expect low growth this year, 1-2 percent rather than the GOT's 5 percent growth target.

3. (SBU) Lack of foreign inflows into Turkish markets is a problem for Bender Securities, a local stock brokerage half owned by Deutsche Bank and with Turkey's largest foreign equity client base. Bender analyst Golkan returned from a "depressing" road show in Europe. He told us that long-time Turkey investors are staying out, and have no trust in AK's ability to turn around the negative sentiment. Golkan said the GOT's recent personnel changes just further damage credibility. On the high roll-over rates in the April 9 auctions, Golkan said this isn't a sign of Turkish bank confidence; instead it's a sign that Treasury needs the cash now. Otherwise, he asked, why would Treasury lock in this amount of debt at the current high rates? From the London investment bank perspective, Citigroup emerging markets analyst Wyman said the only foreigners in Turkish lira investments are now in purely for the moral hazard based on prospects of U.S. aid.

4. (U) The Central Bank released the results of its early April survey of inflationary expectations on April 10. Increases in the consumer price index, looking 12 months into the future, averaged 28.3 percent in early April (compared with the GOT year-end target of 20 percent). In early March, CPI expectations averaged 26.2 percent.
PEARSON